United States Information Agency

Office of Inspector General

Semiannual Report To The Congress

April 1, 1992 - September 30, 1992

This report has been provided, through the Director of the United States Information Agency, to the following Congressional oversight committees:

- Senate Committee on Appropriations
- Senate Committee on Foreign Relations
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Committee on Foreign Affairs
- House Committee on Governmental Affairs

C-2

United States Information Agency

Washington, D.C. 20547

INSPECTOR GENERAL

October 30, 1992

The Honorable Henry E. Catto, Director

In accordance with the Inspector General Act of 1978 (Public Law 95-452), as amended, I am forwarding herewith the semiannual report of the Inspector General that covers the six-month period from April 1, 1992 through September 30, 1992.

The Act requires that this report be transmitted to the appropriate committees of the Congress within 30 days of receipt.

Under your leadership the Agency has continued to strengthen the management and administration of its activities. As you will see, this report identifies areas that still need improvement.

I very much appreciate your encouragement and the strong support you have given to the Office of Inspector General.

George F. Murphy Jr.
Inspector General

INSPECTOR GENERAL ACT OF 1978

Purpose:

In order to create independent and objective units ... there is hereby established in each of such establishments an office of Inspector General.

Duties and Responsibilities:

(a) It shall be the duty and responsibility of each Inspector General with respect to the establishment within which his Office is established...

(1) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of such establishment...

(3) to recommend policies for and to conduct, supervise, or coordinate other activities carried out or financed by such establishment for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations...

(5) to keep the head of such establishment and the Congress fully and currently informed, by means of the reports required in section 5 and otherwise, concerning fraud and other serious problems, abuses, and deficiencies ..., to recommend corrective action concerning such problems, abuses and deficiencies, and to report on the progress made in implementing such corrective action.

Semiannual Reports:

(a) Each Inspector General shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30.

Excerpt from Public Law 95-452, as amended.

United States Information Agency

Office
of
INSPECTOR GENERAL

SEMIANNUAL REPORT
TO THE CONGRESS

Kim

Issue: 92-II

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DIGEST

This report is issued pursuant to the Inspector General Act of 1978, as amended. The report covers the six month period from April 1, 1992 through September 30, 1992.

HIGHLIGHTS OF NEW ISSUES

WEAKNESSES IN PROJECT MANAGEMENT

Seville Expo '92

OIG is currently conducting a review of USIA activities relating to the planning, construction, and operation of the U.S. Pavilion at Expo '92 held in Seville, Spain. An overall OIG report regarding this subject is scheduled for issuance during the next reporting period.

USIA - U.S. Navy Construction Agreement

Construction Costs Exceeded Authorized Funding by $2.6 Million

USIA entered into an agreement with the U.S. Navy for the design and construction management of the U.S. Pavilion. Despite a series of difficulties, the Pavilion opened as scheduled on April 20, 1992. Nevertheless, construction costs have exceeded USIA authorized funding by $2.6 million. Both USIA and the Navy disclaim responsibility for the increased costs.

On September 15, 1992, USIA reported a planned fiscal year 1992 reprogramming action to the Congress to cover $2 million of the $2.6 million in increased construction costs and a $700,000 increase in operating costs.

House Subcommittee Leadership Questions $2 Million Reprogramming for Construction Costs

On September 25, 1992, the Chairman and the Ranking Minority Member of the House Committee on Foreign Affairs, Subcommittee on International Operations, advised USIA that, while they did not object to the $700,000 reprogramming for additional operating costs, they did not concur with the $2 million reprogramming for construction costs.

GAO Investigation Requested

On September 30, 1992, these members, along with the Chairman of the House Committee on Foreign Affairs, requested the U.S. General Accounting Office (GAO) to investigate the matter. OIG, which is conducting its own review of Seville Expo '92 activities, is coordinating its work with GAO as appropriate.

It should be noted that USIA may need an estimated $2 million to $4 million in additional funds should it be required to dismantle and demolish the U.S. Pavilion. (See page 11.)

Letter Contract For Design of Bill of Rights Exhibit Overstated by $77,357

Staples and Charles Ltd.

On December 9, 1991, USIA awarded a letter contract to Staples and Charles Ltd. for the design of the Bill of Rights exhibit at the U.S. Pavilion which stated that negotiation of the final contract was expected to be completed by December 15, 1991. The initial contract limitation of $100,000 was subsequently increased to $214,000, but USIA's Office of Contracts did not definitize it until April 29, 1992 after all work was completed. The final contract, as modified, totalled $432,500, including a $365,000 firm fixed-price portion and a $67,500 cost-reimbursable portion. Because of apparent defective pricing, the firm fixed-price portion of the contract was overstated by $77,357. (See page 13.)

Letter Contract For Fabrication and Installation of Bill of Rights Exhibit Exceeded by $250,000

Maltbie Associates

The funding limit of $750,000 in USIA's amended letter contract for the Bill of Rights exhibit, awarded to Maltbie Associates on January 16, 1992, was exceeded by about $250,000. Even when the contractor's billing at the end of March 1992 totalled almost $805,000 and the exhibit had yet to be installed, USIA's Office of Contracts still had not definitized the contract or established a new funding limit.

As of the date of this report, the contractor has billed USIA for about $1 million. However, since a final negotiated settlement has not been made, the cost of the contract remains undetermined. (See page 14.)

Oversight of Gift Shop Inadequate

Gift Shop

USIA entered into an agreement with Nakis Exposition Services (NES) to operate a gift shop and a restaurant at the U.S. Pavilion.

The Commissioner General suspended the services of NES, effective August 2, 1992, for failing to pay delinquent bills and for failing to correct ventilation problems in the restaurant. Other problems in the operation of the gift shop were also known to USIA officials. USIA allowed NES to correct the problems in the restaurant and resume operation, but took over operation of the gift shop. Some of the problems in the gift shop continued after USIA took over its operation.

Additional inquiries into these matters are currently being conducted by OIG's investigative unit. (See page 15.)

Ad Hoc U.S. Pavilion Administrative Policies Violated Regulations

Administrative Policies

The Associate Commissioner General for Management implemented *ad hoc* policies concerning personnel pay and leave which were inconsistent with established USIA and government-wide regulations. For example, current information indicates that, under these policies, federal employees were allowed to keep track of their own overtime hours and were given compensatory credit in lieu of holiday pay. Employees were apparently misinformed regarding accumulated leave ceilings. (See page 15.)

WEAKNESSES IN GRANTS MANAGEMENT

National Endowment for Democracy (NED)

As directed by Congress, OIG conducted its first annual audit of NED. The audit, which covered NED, its four core grantees and five discretionary grantees, disclosed the following deficiencies:

About $3 Million in Costs Questioned

Costs Questioned

About $3 million in NED grantee costs were questioned of which approximately $800,000 was unallowable and $2.2 million unsupported. For example, unallowable costs included $484,830 for net program salaries and administrative costs allocated to USIA-funded NED grants instead of to the Agency for International Development and other privately funded programs. (See page 16.)

Inadequate Financial Oversight

Financial Oversight

NED failed to provide the oversight necessary to assure that federal funds were spent and accounted for by its grantees in accordance with Office of Management and Budget Circulars and grant agreements. For example, NED did not ensure that its grantees adequately verified subrecipients' claimed costs or established proper controls over non-expendable property purchased with federal funds. In addition, NED's grant agreements with three of its four core grantees did not provide for the proper allocation of salaries, benefits and administrative costs to programs other than USIA-funded NED grants. (See page 17.)

Delphi Research Associates (DRA)

Use of Federal Funds

$290,000 in Federal Funds Improperly Used to Support Profit-Making Affiliates

DRA received USIA grants totalling about $9 million during 1988 and 1989 and improperly used up to $290,000 in federal funds to make unauthorized loans to, and investments in, its profit-making affiliates. During this period, about 99 percent of DRA's funds came from federal sources.

In addition, DRA improperly used federal funds to pay the monthly operating expenses of its affiliates. As of December 31, 1989, the affiliates owed DRA $189,060 for unreimbursed operating expenses.

Costs Questioned

About $254,000 in Costs Questioned

DRA expended about $213,000 for unallowable activities. This included, for example, about $164,000 for unauthorized per diem, meals and tips; costs associated with an office in San Francisco which was not necessary to the performance of the grant; and indirect cost rate adjustments. In addition, about $41,000 was unsupported. (See page 17.)

International Development Exchange (IDE)

Misuse of Grant Funds

Over $59,000 of a $60,000 Grant Award Questioned as Unallowable or Unsupported

IDE expended over $27,000 of a $60,000 grant award for unallowable activities, including almost $20,000 for travel costs, salaries and consultant fees for fund raising activities. In addition, over $32,000 was expended for administrative costs without adequate supporting documentation. (See page 18.)

WEAKNESSES IN OVERSEAS POST MANAGEMENT

USIS Morocco

Special Review Conducted

Unresolved Personnel Problems, Improper Grants, and Other Weaknesses Identified

A special review of operations at the United States Information Service (USIS, as USIA is known abroad) Morocco, conducted at the request of the Director of the Office of North African, Near Eastern, and South Asian Affairs, identified failures by American officers to resolve a series of long-standing personnel problems.

The review also found: (1) improper grant awards to carry out USIS programs, (2) unreliable property records, (3) insufficient administrative oversight of the Fulbright Commission, and (4) poor accountability for J-Visa authorization forms. (See page 19.)

USIS Paris

Improper Grant Awards

$56,161 in Grant Funds Improperly Used to Cover Representational Expenses

USIS Paris officers, in violation of USIA regulations, made grant awards totaling $56,161 to the Fulbright Commission, although they knew the awards were to obtain funds for the payment of post representational expenses in excess of authorized ceilings.

This practice, which appears to have been followed since at least 1985, is currently being reviewed by OIG's investigative unit. (See page 20.)

CRIMINALITY AND MISCONDUCT INVESTIGATIONS

Investigative Actions

Reports of Four Investigations Referred to Department of Justice

Three separate Reports of Investigation relating to USIA employees have been presented to the Department of Justice. The case of a Voice of America vendor engaged in product misrepresentation was also referred to the Department of Justice. (See page 21.)

HIGHLIGHTS OF FOLLOW-UP ACTIONS

The Tax Reform Act of 1986

Inspector General Finding:

"The Tax Reform Act of 1986 significantly changed taxation requirements for scholarship and fellowship income. A [OIG] review to determine the Act's financial impact on USIA exchange programs disclosed inconsistencies within E Bureau [Bureau of Educational and Cultural Affairs] and among some of its grantee organizations in applying the Act.

For example, while all academic exchange grantee organizations sampled do withhold taxes on participant income, only one of nine International Visitor Program grantee organizations in the sample withheld and reported taxes on payments to participants during fiscal years 1989 and 1990. The remaining

eight organizations may be liable for interest and penalties for failure to withhold and report taxes on about $3.7 million in participant payments..."
(Semiannual Report, March 31, 1992, page 6)

Action:
On September 8, 1992, USIA's Office of the General Counsel presented the Internal Revenue Service with a formal request that International Visitor Program grants be treated as gifts, not fellowships or scholarships. If this request is upheld, then the grantees will not be subject to the taxation and reporting requirements of the Act.

Controls Over J-Visa Program

Inspector General Finding:
"USIA controls over J-visa authorization forms are inadequate. For example, during fiscal years 1988, 1989 and 1990 about 714,000 authorization forms were distributed but only about 234,000 were recorded in a USIA computer system. The computer system does not record whether exchange visitors remain in the U.S. after programs have finished and contains errors, including over 13,000 records with duplicate control numbers."
(Semiannual Report, March 31, 1991, page 4 and Semiannual Report, September 30, 1991, page 3)

Action:
USIA's Office of General Counsel contracted with Information Management Consultants, Inc. (IMC) to address some of the system's inadequacies. An updated system based on IMC's work was completed in July 1992. Proposed regulations governing the program were published in the Federal Register on October 9, 1992. The regulations require that sponsors report information which the Director of the program has indicated will allow for an accounting of the J-visa authorization forms. The regulations are expected to be implemented during calendar year 1993.

Property Management

Inspector General Findings:
"The 1991 FMFIA [Federal Managers' Financial Integrity Act] report states:

"The Agency's automated Property Inventory Accountability System (PIAS) was activated on 9/6/91 and became fully operational on 11/4/91."
(Emphasis added)

However, the phrase "fully operational" refers only to the PIAS software, and not the entire system.

As of mid-December 1991, the system's data base was incomplete, inaccurate, and of little use for management control. Therefore, PIAS could still not accurately account for over $200 million of non-expendable personal property worldwide. This weakness was first identified in 1985."
(Semiannual Report, March 31, 1992, pages 9 and 11)

> ***Action***:
> USIA now places the value of its non-expendable personal property at $179 million rather than the estimated "over $200 million."
>
> USIA claims that, as of September 20, 1992, about 85 percent of this $179 million value has been entered into PIAS. All remaining property is scheduled for entry into PIAS by the end of November 1992.

Acquisition Management

Inspector General Finding:
A review of Agency procurement practices found that management of the acquisition process could be strengthened."
(Semiannual Report, March 31, 1992, page 6)

> ***Action***:
> The Office of Contracts agreed with recommendations made by OIG in its final report to: (1) enhance contract monitoring to prevent unnecessary cost growth; (2) increase timeliness of contract awards; (3) ensure contractors' understanding of work required to preclude disputes; and (4) control delegation of procurement authority to prevent unauthorized and unconstrained purchases.

Imprest Fund Controls

Inspector General Finding:
"The 1991 FMFIA report indicates that actions to correct imprest fund weaknesses were "completed." The report states:

> *"The most recent unannounced [imprest fund] cash count, on 5/23/91, indicates no problems, which suggests that M/C's [USIA's Office of the Comptroller] imprest fund internal control improvements have been effective."*

OIG notes, however, that unannounced cash counts were not conducted of all 19 domestic imprest funds during fiscal year 1991 as required by USIA regulations.

Other violations of USIA and Department of Treasury imprest fund regulations have continued. For example, fund managers for ten of the 19 domestic funds were still not providing for the adequate separation of duties, and a travelers check fund of $674,000 was found to be excessive and was reduced to $350,000." (Semiannual Report, March 31, 1992, page 8)

Action:
On June 25, 1992, USIA regulations were revised to strengthen imprest fund internal control procedures. This included training, adequate separation of duties, accountability for records and reports, and the verification and audit of funds.

In addition, USIA developed written procedures governing the use of and accountability for a $5,000 "confidential fund" which had been in use since USIA was established in 1953.

Eastern European Operations

Inspector General Finding:
A five-country review of USIA operations in Eastern Europe resulted in 125 recommendations.
(Semiannual Report, March 31, 1992, pages 10-12)

Action:
As of the date of this report, the majority of OIG's recommendations have been implemented. One recommendation not implemented involves the installation of a fire alarm system at the American Library in Bucharest, Romania. USIA plans to have this fire alarm system installed by the end of 1992.

Criminality and Misconduct Investigations

Disciplinary action taken by USIA against an employee who falsely reported working 173 hours of overtime valued at $2,393 resulted in a 30-day suspension plus a requirement for full restitution of the funds.

In addition, a Senior Foreign Service employee involved in a conflict-of-interest matter received a Letter of Reprimand.

OIG WORK IN PROGRESS

- Program and administrative activities in the Philippines.
- Procedures for the resolution of questioned costs identified in OIG grant audit reports.
- Compliance with OMB Circular No. A-125, which implements the Prompt Payment Act.
- Proposed relocation of certain USIA facilities, including TV Marti's plans to construct a television studio.
- Policies and procedures for domestic and international travel.
- Improper and illegal acts by employees, grantees, and contractors.

STATISTICAL SUMMARY

I. Activities

Reports Issued/Pending (See Appendix A)	25
Investigations Closed (See Appendix B)	16

II. Potential Monetary Impact

Questioned Costs (See Appendix A)	$ 3,858,229
Recommendations that Funds Be Put to Better Use (See Appendix A)	$ 77,357
TOTAL	**$ 3,935,586**

III. Actual Monetary Impact

Questioned Costs Sustained (See Appendix C)	$ 164,521
Funds Put to Better Use (See Appendix D)	$ 186,544
Investigative Restitutions (See Appendix B)	$ 2,393
TOTAL	**$ 353,458**

IV. Reports With Monetary Impact for Which Management Action is Pending

Number Less Than Six Months Old	13
Dollar Value (See Appendices C and D)	$ 3,935,586
Number More Than Six Months Old	4
Dollar Value (See Appendices C and D)	$ 1,171,966

OPERATIONAL ACTIVITIES

Office of Inspector General activities during this period identified problems in USIA relating to project, grant, and financial management and overseas post operations. Investigations relating to criminality and employee misconduct were also conducted.

PROJECT MANAGEMENT

SEVILLE EXPO '92

USIA represents the U.S. Government in fairs and expositions held abroad. OIG is currently conducting a review of USIA activities relating to the planning, construction and operation of the U.S. Pavilion at Expo '92, held in Seville, Spain from April 20, 1992 through October 12, 1992. The following summarizes some of the significant issues developed to date. An overall OIG report regarding this subject is scheduled for issuance during the next reporting period.

- **USIA - U.S. Navy Construction Agreement**

Construction Costs Exceed Authorized Funding by $2.6 Million

USIA entered into an agreement with the U.S. Navy for the design and construction management of the U.S. Pavilion in Seville, Spain for Expo '92. Despite a series of difficulties, the Pavilion opened as scheduled on April 20, 1992. Nevertheless, construction costs exceeded the USIA authorized funding by $2.6 million. Both USIA and the Navy disclaim responsibility for the increased costs.

In a February 8, 1992 memorandum, the Navy's Project Manager advised USIA's Associate Commissioner General for Management that USIA should be budgeting for a minimum of $14 million for construction costs, plus a 5 to 7 percent allowance for currency exchange rate losses to complete the Pavilion.

The Navy's Project Manager said that he verbally informed USIA officials, in a March 18, 1992 meeting, of items that would add $1.2 million to the $12.7 million already transferred to the Navy to complete the Pavilion. The Associate Commissioner General for Management and other USIA officials recalled the Navy advising them that work, under four contract modifications, originally funded at $217,000, would cost an additional $300,000 to $500,000 and that the Navy held only $162,000 in unobligated funds at the time. The Associate Commissioner General for Management also was of the opinion that the Navy left the meeting with the understanding that they were to complete the Pavilion by

opening day, April 20, 1992. On March 31, 1992, the Navy Contracting Officer was notified by the construction contractor that the $217,000 had been fully expended.

Navy Requests Additional Funds From USIA

On June 12, 1992, the Navy Officer in Charge of Construction in Madrid, Spain, told an OIG representative that the modifications, originally funded at $217,000, could require a $1 million to $2.6 million settlement with the construction contractor. On June 26, 1992, negotiations between the Navy and the construction contractor resulted in a $2.6 million settlement.

On July 20, 1992, the Navy requested that USIA transfer an additional $2.6 million to cover the settlement, increasing the total construction cost of the Pavilion from $12.7 million to $15.3 million.

USIA Denies Navy Request

August 10, 1992, USIA denied the Navy's request and offered to transfer $850,000 as final payment, stating:

> *"...we believe USIA should not be held responsible for what appears to have been Navy's failure to keep construction costs and obligations within known funding limitations and to advise USIA promptly in advance of incurring excess costs."*

On August 19, 1992, the Navy disagreed with USIA stating:

> *"...We have never been in a position to assess USIA's overall financial ability to order more work .... Not withstanding our [agreement], nor the fact that we have no legal authority to "reimburse USIA" or otherwise fund this project, the responsibility USIA wishes to transfer to this command is not only contrary to our [agreement], but lacks good faith."*

On August 31, 1992, USIA transferred $560,000 to the Navy to cover exchange rate losses.

On September 15, 1992, USIA reported a planned fiscal year 1992 reprogramming action to the Congress to cover $2 million of the $2.6 million in increased construction costs, and a $700,000 increase in the Pavilion's operating costs.

House Subcommittee Questions $2 Million Reprogramming for Construction Costs

On September 25, 1992, the Chairman and the Ranking Minority Member of the House Committee on Foreign Affairs, Subcommittee on International Operations, advised USIA that while they did not object to the $700,000 reprogramming for additional operating costs, they did not concur with the $2 million reprogramming for construction costs.

GAO Investigation Requested

On September 30, 1992, a General Accounting Office (GAO) investigation of U.S. participation in Expo '92 was requested by the Chairman, House Committee on Foreign Affairs, and the Chairman and Ranking Minority Member of the House Subcommittee on International Operations. The Congressmen stated:

> *"We would like the GAO to investigate USIA's allegations, to determine to what extent either agency, or the contractor, was responsible for the construction cost overruns, and to assess efforts at private fundraising."*

It should be noted that USIA may need an estimated $2 million to $4 million in additional funds should it be required to dismantle and demolish the U.S. Pavilion.

- **Administration of Letter Contracts For Bill of Rights Exhibit**

USIA contracted with Staples and Charles, Ltd. to design the Bill of Rights exhibit at the U.S. Pavilion. A second contract was awarded to Maltbie Associates to fabricate and install the exhibit.

Staples and Charles, Ltd.

Contract For Design of Bill of Rights Exhibit Overstated by $77,357

On December 9, 1991, USIA awarded a letter contract to Staples and Charles, Ltd. for the design of the Bill of Rights exhibit which stated that negotiation of the final contract was expected to be completed by December 15, 1991. The initial cost limitation of $100,000 was subsequently increased to $214,000. Even when the contractor's billing through March 15, 1992 totalled about $305,000, USIA's Office of Contracts still had not definitized the contract or established a new cost limitation. The contract was not definitized until April 29, 1992, after all work was completed. Two Federal Acquisition Regulation (FAR) clauses that must be included in all letter contracts direct the Contracting Officer to negotiate a definitized contract as soon as possible to limit the Government's financial liability.

- FAR Part 52, Section 216-24, Limitation of Government Liability, requires that the contractor not authorize expenditures or incur obligations exceeding the dollar limit stated in the contract.

- FAR Part 52, Section 216-25, Contract Definitization, requires that a schedule for definitizing the contract be developed and inserted into the letter contract. The schedule must include, among other things, target dates for definitization and the start of negotiations. The target date for definitization should be within 180 days after contract award or before 40 percent of the work is completed, whichever occurs first. It further requires that if agreement on a definitive contract can not be reached by the target date, the Contracting Officer may determine a reasonable price unilaterally, subject to contractor appeal under the "Disputes Clause."

The final contract, as modified, totalled $432,500, including a $365,000 firm fixed-price portion and a $67,500 cost-reimbursable portion. Because of apparent defective pricing, the firm fixed-price portion of the contract was overstated by $77,357. For example, Staples and Charles had certified a 154 percent overhead rate. The allowable overhead rate as calculated by OIG was determined to be 120 percent. This 34 percent difference alone added about $20,000 to the price of the contract.

Maltbie Associates

Contract For Fabrication and Installation of Bill of Rights Exhibit Exceeded by $250,000

On December 24, 1991, USIA issued Maltbie Associates an advance authorization to incur costs; and, on January 16, 1992, awarded them a letter contract with a cost limitation of $200,000. The letter contract, which stated that negotiation of a definitive contract was to be completed by February 28, 1992, was modified twice, increasing the cost limitation to $750,000.

Ultimately, the funding limit of $750,000 was exceeded by about $250,000 without USIA's Office of Contracts ever modifying the funding limitation in the contract. Even when the contractor's billing at the end of March 1992 totalled almost $805,000 and the exhibit had yet to be installed, the Office of Contracts still had not definitized the contract or established a new funding limit, as required by the FAR.

As of the date of this report, the contractor has billed USIA for about $1 million. However, since a final negotiated settlement has not been made, the cost of the contract remains undetermined. Impacting the settlement will be the disposition of about $411,000 in unsupported costs identified by OIG.

- **Gift Shop**

Oversight of Gift Shop Inadequate

USIA entered into an agreement with Nakis Exposition Services (NES) to operate a restaurant and a gift shop at the U.S. Pavilion.

The Commissioner General suspended the services of NES, effective August 2, 1992, for failure to pay delinquent bills and for failing to correct ventilation problems in the restaurant. Some problems in the operation of the gift shop were also known to USIA officials. USIA allowed NES to correct the problems in the restaurant and resume its operation, but took over operation of the gift shop. Some of the problems in the gift shop continued after USIA took over its operation. For example, the agreement required that NES deposit $100,000 in operating funds to the gift shop bank account. NES deposited only $35,000. Additionally, an adequate accounting system was not created nor was an inventory control system established. Also, the security provided for the protection of assets and inventory was inadequate.

Additional inquiries into these matters are currently being conducted by OIG's investigative unit.

- **Administrative Policies**

Ad Hoc U.S. Pavilion Administrative Policies Violated Regulations

The Associate Commissioner General for Management implemented *ad hoc* policies concerning personnel pay and leave which were inconsistent with established USIA and Government-wide regulations. For example, current information indicates that under these policies, federal employees were allowed to keep track of their own overtime hours and were given compensatory credit in lieu of holiday pay. Employees were apparently misinformed regarding accumulated leave ceilings.

These policies were established to reflect the special requirements of staging a six-month, seven-day-a-week fair.

In commenting on this matter, USIA's Chief, Domestic Personnel Division, stated in a memorandum dated September 28, 1992:

> *"Agency managers do not have the discretion to institute policies for their own organizations which conflict with Agency or government-wide regulations."*

Grants Management

National Endowment for Democracy (NED)

NED, which is funded primarily by USIA and the Agency for International Development (AID), is a private, non-profit organization created to award grants to various U.S. based private sector groups working to promote democratic values and institutions abroad.

USIA was directed by Congress, in its 1991 amendment to the National Endowment for Democracy Act (Public Law 102-138), to conduct annual audits of NED. This first audit, conducted by OIG, covers NED, its four core grantees and six discretionary grantees for the fiscal years 1988, 1989, and 1990.

During this period, NED received about $80.8 million in federal funding and awarded 350 separate grants, totalling about $75.7 million. Most of these grants were subgranted to foreign recipients. OIG's audits, which focused solely on NED and selected U.S. based grantees, disclosed the following financial deficiencies:

- **Costs Questioned**

  About $3 Million in Costs Questioned

  NED, its four core grantees and five selected discretionary grantees had instances of noncompliance with OMB Circulars and grant agreements. About $3 million in NED grantee costs was questioned of which approximately $800,000 was unallowable and $2.2 million unsupported. Unallowable costs included: $484,830 for program salaries and administrative costs allocated to USIA-funded NED grants instead of to AID and other programs, $228,602 for first class and unreasonable business class airfares over economy class airfares, $36,613 incurred before or after the grant period, $28,187 for duplicate and other improper travel payments, and $6,571 for alcoholic beverages and entertainment costs.

Inadequate Financial Oversight

- **Financial Oversight**

  NED failed to provide the oversight of its grantees necessary to assure that federal funds were spent and accounted for by its grantees in accordance with OMB Circulars and grant agreements. For example, one core grantee paid $1,413,000 for equipment and supplies to a subrecipient in Poland without being able to determine how the money was spent because the records were routinely destroyed, a practice begun in the "underground" period. About $306,000 claimed by a subgrantee was paid by the core grantee who did not determine how the costs were incurred because the supporting documents were in a foreign language.

  In addition, NED did not ensure that grantees established proper controls over non-expendable property purchased with federal funds. For example, one core grantee was awarded $377,344 to provide a Bulgarian subrecipient with computers, fax machines, photocopiers, and six used minivans. Serial numbers and unit cost information were missing from inventory lists on 15 of 18 computers, all 11 photocopiers, and five of the six minivans.

Delphi Research Associates (DRA)

During 1988 and 1989, DRA received grants from USIA totalling about $9 million to arrange educational and cultural exchange programs for foreign participants visiting the United States.

$290,000 in Federal Funds Improperly Used to Support Profit-Making Affiliates

- **Use of Federal Funds**

  DRA improperly used up to $290,000 in federal funds during 1988 and 1989 to make unauthorized loans to and investments in its profit-making affiliates. During this period, about 99 percent of DRA's funds came from federal sources.

  In addition, DRA improperly used federal funds to pay the monthly operating expenses —salaries, rent, and supplies— for its affiliates. As of the end of the period audited, December 31, 1989, the private entities owed DRA a total of $189,060 in unreimbursed expenses.

  OIG also questioned about $49,000 in salary and fringe benefits for DRA's Chairman and President related to periods when DRA records indicated they were traveling on private business. Further, OIG questioned about $164,000 for unauthorized meals, per diem and tips; costs associated with an office in San Francisco which was not necessary to the

performance of the grant; certain other related travel costs; and related indirect cost rate adjustments. In total, about $254,000 was questioned of which about $41,000 was unsupported.

OIG recommended that the contracting officer direct DRA to develop and implement appropriate internal accounting controls in order to segregate its federal and non-federal funds, and to discontinue using federal funds to make loans to and invest in its private affiliate organizations.

OIG's review of this matter continues.

International Development Exchange Inc. (IDE)

In fiscal year 1991, IDE was awarded a $60,000 grant by USIA to assist in conducting educational programs with citizen participants in Poland.

- **Mismanagement of Federal Funds**

Almost Entire Grant Award of $60,000 Expended for Unallowable or Unsupported Activities

IDE's Chairman of the Board informed USIA's contracting officer and OIG that he suspected mismanagement of federal funds by IDE's former President/Project Director.

A review of this matter found that almost the entire grant award of $60,000 was expended for activities which were unallowable or unsupported. For example, travel, salaries, and consulting fees totalling almost $20,000 were charged to the grant for unallowable fund raising activities. In addition, $7,000 in other unallowable costs resulted from expenditures incurred before the period of performance, unauthorized equipment purchases, and personal travel by IDE officials.

Further, $32,229 in program and administrative costs incurred in Poland and the United States were questioned because of inadequate support documentation.

Inadequate Accounting System

IDE did not have an adequate accounting system. In fact, boxes of financial documentation had to be retrieved from the President's garage where the data had been stored when IDE closed its office in January 1992 due to a lack of financial resources.

Strengthening of Pre-Award Procedures Recommended

OIG has recommended that USIA strengthen its pre-award procedures for first time grantees and initiate action to prevent IDE from receiving further federal grants.

Overseas Post Management

USIS Morocco

Failure to Resolve Long-Standing Personnel Problems

A special review of operations at the United States Information Service (USIS, as USIA is known abroad) Morocco, conducted at the request of the Director of the Office of North African, Near Eastern, and South Asian Affairs, identified failures by American officers to resolve a series of long-standing personnel problems.

The review also disclosed that:

Practices and Procedures Were Improper and Vulnerable to Waste, Fraud, and Abuse

- **Grants Management**
  Approximately 20 percent of the grants awarded by USIS Rabat from fiscal years 1988 through 1991 were, in effect, grants designed to avoid established USIA practices and controls. There was no intention to have the designated grantee perform the administrative duties that were required by the grant. Instead, cash was given to USIS program officers to administer rather than to the grantees named in the awards. The program officers received the total grant amount in cash, up front, and were required to pay vendors and keep financial records. Unexpended cash was kept in a safe in the office of the Public Affairs Officer's secretary, which was left open and at times unattended during the day. Routine use of cash by program officers resulted in one instance in the disappearance and loss of approximately $500. The program officer sent cash from Rabat to Casablanca by diplomatic pouch. The funds were never received and could not be traced. None of these program officers were officially warranted to act as an agent to disburse U.S. Government funds. However, they were required to assume such responsibilities.

Inventories Were Not Maintained

- **Property Management**
  The post failed to perform annual property inventories in violation of USIA regulations. No reliable record of administrative and program property existed in either Rabat or Casablanca. In addition, the post had not responded to annual USIA requests to update and verify the inventory list furnished by the property staff in Washington.

Administrative Oversight of the Fulbright Program Was Insufficient

- **Administration of Fulbright Program**
  The post's representatives on the Moroccan-American Commission for Educational and Cultural Exchange (Fulbright Commission) had not provided sufficient financial and

managerial oversight to this organization. Policies were allowed to diverge significantly from such standard USIA practices as contracting for annual independent audits, maintaining all official records in English, and using modern automated accounting methods and systems. The Manual for Binational Commissions and Foundations issued in 1991 as a guide to accepted worldwide management policies and procedures was not adopted.

- **Accountability of J-Visa Forms**

J-Visa Authorization Forms Poorly Controlled

The accounting records for J-visa authorization forms were inaccurate and security over the forms was ineffective. For example, forms were signed in blank by the Cultural Affairs Officer and kept in an unlocked area. In addition, the accounting records for the forms were not periodically reconciled. As a result, OIG could not ascertain if the post was missing any forms.

USIA concurred with all 15 recommendations contained in the OIG report. To date, action has been completed on 11, with two to be concluded in early November 1992. The remaining two recommendations are scheduled to be addressed in November 1992.

USIS PARIS

- **Grants Management**

$56,161 in Grant Funds Improperly Used to Cover Representational Expenses

USIS Paris officers, in violation of USIA regulations, issued grants totaling $56,161 to the Franco-American Commission for Educational Exchange (FACEE) (The Fulbright Commission) knowing that such awards were to obtain funds for the payment of post representational expenses in excess of authorized ceilings.

This practice, which appears to have been followed since at least 1985, is being reviewed by OIG's investigative unit.

Violation of Title 18 USC, Section 1001

OIG recommended that USIA circulate a notice to all overseas posts alerting them to the prohibitions against issuing improper grants and reminding them that the signing of false grants is a violation of regulations and law, including Title 18 USC, Section 1001, False Official Statements.

Accounting System Weaknesses

A major weakness of FACEE's accounting system was its failure to track funds by individual grant. Consequently, it could not be determined if grant funds were expended solely for the purposes specified in the respective grants.

FINANCIAL MANAGEMENT

• Year-End Spending

Excessive Year-End Spending Patterns Continue

The excessive year-end spending patterns identified in OIG audits of fiscal years 1987 and 1988 have continued in fiscal years 1990 and 1991. These patterns have greatly hampered the ability of contracting officers to properly review and process procurements and has subjected the process to wasteful spending. For example, the number of procurement actions, including contract modifications, processed by USIA's Office of Contracts in September 1990 and 1991, increased 164 percent and 281 percent over the monthly average for each fiscal year, respectively.

In addition, about $900,000 of equipment and furnishings for overseas posts was purchased in September 1991 although no need existed for that fiscal year since plans had been made to keep some of the purchases in storage for as long as 16 months. Also, the warehouse manager stated that the storage of this furniture and equipment caused space management problems in USIA's New York warehouse for about a year, until much of it had been shipped overseas in August and September 1992.

OIG recommended that procurement proposals be prioritized according to USIA-wide needs and long-range strategic plans; and that capital expenditures be properly budgeted for and not left to the availability of year-end funds or surpluses from foreign exchange rate fluctuations.

CRIMINALITY AND MISCONDUCT INVESTIGATIONS

• Employee Investigations

Conversion of GTR for Personal Travel

Bureau of Broadcasting - A Voice of America (VOA) employee converted a Government Travel Request for personal travel; had not properly vouchered educational advances of $11,000; and submitted fictitious or false vouchers for reimbursement of representational expenses and long distance telephone charges.

A Report of Investigation has been forwarded to the Office of the U.S. Attorney.

$17,000 in Time and Attendance Irregularities

Bureau of Broadcasting - False statements were made by a senior official regarding time and attendance irregularities amounting to about $17,000.

A Report of Investigation has been forwarded to the Office of the U.S. Attorney.

Illegal Importation of Elephant Ivory

Bureau of Broadcasting - A USIA employee violated U.S. laws by purchasing abroad and sending into the United States numerous pieces of elephant ivory.

A Report of Investigation has been forwarded to the Office of the U.S. Attorney.

Conflict of Interest

Bureau of Policy and Programs - A member of the Senior Foreign Service was involved in a conflict of interest situation centering on the employee's official duties and the business interests of a family member.

Based on the investigative findings, the employee received a Letter of Reprimand for this misconduct.

- **Contractor Investigations**

Product Misrepresentation

Bureau of Broadcasting - A vendor sold VOA a "used" diesel engine generator cylinder assembly and component parts for $9,800 and indicated that the cylinder assembly was an "off-the-shelf" item. Interviews of individuals with knowledge of the vendor, along with relevant documentation, disclosed that the cylinder was approximately 35 years old and had been in extended service in a cement plant. The cylinder came into the vendor's possession in approximately 1988 as a result of a transaction with a salvage company who sold the cylinder to the vendor as "scrap." Inspection of the cylinder by an independent testing company substantiated that the cylinder had prior service.

A Report of Investigation has been forwarded to the Office of the U.S. Attorney.

REPORTS FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE WITHIN SIX MONTHS OF ISSUANCE

THE CENTER FOR EXCELLENCE IN EDUCATION

The report, issued on August 6, 1990, made recommendations about questioned costs of $33,396 and accounting system deficiencies. USIA's Contracting Officer has resolved all accounting system recommendations. On March 4, 1992, OIG received a final determination from the Contracting Officer on the questioned costs, which sustained $448 in questioned costs. OIG found this resolution unacceptable and sent a memorandum dated June 1, 1992 to the Contracting Officer. The resolution file was forwarded on June 1, 1992 to the Office of the General Counsel and is still awaiting clearance. A decision regarding this matter is scheduled to be made during the next reporting period. (Report No. A-90-24)

AMERICAN COUNCIL OF LEARNED SOCIETIES

The report, issued on September 28, 1990, made recommendations about questioned costs and accounting system deficiencies. The Contracting Officer has resolved all the accounting system recommendations. However, the Contracting Officer has not made a decision on recommendations of $370,843 in funds put to better use. Questioned costs of $239,613 in legal fees are under final review by the Acting Director, Office of Contracts. A decision regarding this matter is scheduled to be made during the next reporting period. (Report No. A-90-29)

AMERICAN COUNCIL OF TEACHERS OF RUSSIAN

The report, issued on September 3, 1991, made recommendations to disallow $368,288 in questioned costs and correct deficiencies in the grantee's accounting system. The accounting system recommendations were satisfactorily resolved, and the Contracting Officer is currently reviewing additional documentation provided by the grantee on questioned costs. A decision regarding this matter is scheduled to be made during the next reporting period. (Report No. A-91-13)

OREGON HISTORICAL SOCIETY

The report, issued on September 10, 1991, made recommendations to disallow $159,826 in questioned costs, which have not yet been resolved. OIG recommended that the Contracting Officer should include in all future grants that sole source procurements of goods and services exceeding $5,000 are subject to USIA approval. A decision regarding this matter is scheduled to be made during the next reporting period. (Report No. A-91-14)

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APPENDIX A

REPORTS ISSUED/PENDING

Report No.	Issue Date	Title/Auditee	Questioned Costs Total	Questioned Costs Unsupported	Funds Put To Better Use
		SPECIAL INSPECTOR GENERAL REVIEW			
IG-92-01	5/29/92	Special Review of USIS Morocco	-0-	-0-	-0-
		AUDIT REPORTS			
Internal and Management Audits					
L-92-16	10/28/92	Review of USIS Paris Grants to the Franco-American Commission for Educational Exchange	-0-	-0-	-0-
A-92-20	10/26/92	Review of Fiscal Years 1990 and 1991 Year-End Spending	-0-	-0-	-0-
A-92-25	Pending	Review of USIA Participation in the Seville Expo	-0-	-0-	-0-
Grant and Contract Audits					
L-92-08	06/17/92	Provisional Indirect Cost Rates for Institute of International Education	-0-	-0-	-0-
L-92-09	07/27/92	Provisional Indirect Cost Rate for American Council of Teachers of Russian	-0-	-0-	-0-
L-92-11	07/09/92	Provisional Indirect Cost Rates for American Council of Learned Societies	-0-	-0-	-0-
L-92-12	07/14/92	USIA Grant Agreements with Andrei Sakharov Institute, National Center for Excellence in Education, & Free University	$ 144,381	$ 144,381	-0-
L-92-13	08/04/92	Provisional Indirect Cost Rates for The Mid-America Committee	-0-	-0-	-0-
L-92-14	08/04/92	Provisional Indirect Cost Rates for Heartland International	-0-	-0-	-0-
A-92-10	Pending	Review of National Endowment for Democracy (NED) Administrative Costs	$ 247	-0-	-0-

...continued

....Appendix A - Continued

rant and Contract Audits (continued)

-92-11	Pending	Audit of NED Grant Agreements with Center for International Private Enterprise	-0-	-0-	-0-
-92-12	Pending	Audit of NED and USIA Grant Agreements with Free Trade Union Institute and Three Regional Institutes	$1,874,364	$1,828,623	-0-
-92-13	Pending	Audit of NED Grant Agreements with the International Republican Institute	$ 480,664	$ 35,038	-0-
-92-14	Pending	Audit of NED Grant Agreements with the National Democratic Institute for International Affairs	$ 290,329	-0-	-0-
92-15	Pending	Audit of NED Grant Agreements with Freedom House	$ 253,945	$ 253,945	-0-
92-16	Pending	Audit of NED Grant Agreements with the Institute for Democracy in Eastern Europe	$ 54,893	$ 44,484	-0-
92-17	Pending	Audit of NED Grant Agreements with the International Rescue Committee, Inc.	-0-	-0-	-0-
92-18	Pending	Audit of NED Grant Agreements with the Joint Center for Political and Economic Studies	$ 8,249	$ 427	-0-
92-19	Pending	Audit of NED Grant Agreements with the Polish American Congress Charitable Foundation	$ 29,358	$ 10,976	-0-
92-22	Pending	Overview Report on the National Endowment for Democracy, its Core Grantees, and Selected Discretionary Grantees	-0-	-0-	-0-
92-23	Pending	Audit of Federal Assistance Agreements with Delphi Research Associates, Inc.	$ 253,772	$ 40,871	-0-
92-24	Pending	Audit of Grant Agreement with International Development Exchange	$ 59,498	$ 32,230	-0-
92-26	Pending	Audit of Costs Claimed Under Letter Contract with Maltbie Associates	$ 408,529	$ 411,420	-0-
92-27	Pending	Audit of Compliance with the Truth-In-Negotiations Act with Staples & Charles, LTD.	-0-	-0-	$ 77,357
		TOTAL	$3,858,229	$2,802,395	$ 77,357

APPENDIX B

INVESTIGATION ACTIVITIES

Investigative Inventory

Pending - Beginning of period	21
Opened During Period	33
Closed During Period	16
Pending - End of Period	38

Hotline Calls

Number Received	10
Investigations Initiated	8
Referred to Agency Management	2

Investigative Results

Disciplinary Actions Taken	3
Corrective Actions Taken	2
Recoveries/Restitutions	$ 2,393
Pending Department of Justice Prosecutorial Review	5
Pending USIA for Administrative/ Disciplinary Action	4

APPENDIX C

REPORTS ISSUED WITH QUESTIONED COSTS

		Number Reports	Dollar Value of Questioned Costs (in thousands) Total Costs	Unsupported* Costs
I	**Reports subject to a decision by management:**			
	a. During prior reporting periods	**9**	**$1,095**	**$ 440**
	b. During current reporting period	12	3,858	2,802
	c. **Total**	**21**	**$4,953**	**$3,242**
II	**Reports for which decisions were made during this period:**			
	a. Dollar value of disallowed costs	**4**	**$ 165**	**$ 91**
	b. Dollar value of costs not disallowed	4	$ 129	$ 76
	c. **Total**	**5****	**$ 294**	**$ 167**
III	**Reports for which no decisions were made by the end of the reporting period:**	**16**	**$4,659**	**$3,075**
.IV	**Reports for which no decisions were made within six months of issuance:**	**4**	**$ 801**	**$ 273**

* Amounts are also included in Total Costs.

** Of five reports, one had all questioned costs disallowed, one had all costs not disallowed, and three had both disallowed costs and costs not disallowed.

APPENDIX D

REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

		Number Reports	Dollar Value (in thousands)
I	Reports subject to a decision by management:		
	a. Issued during prior reporting periods	3	$ 558 *
	b. Issued during current reporting period	1	77
	c. Total	4	$ 635
II	Reports for which decisions were made during this period:		
	a. Recommendations with which management agreed	2	$ 187
	b. Recommendations with which management did not agree	0	0
	c. Total	0	$ 187
III	Reports for which no decisions were made by the end of the reporting period:	2	$ 448
IV	Reports for which no management decision was made within six months of issuance:	1 **	$ 371

* Funds of $20,000 and $166,544 identified in prior OIG reports A-92-03 and I-92-01, respectively, were not reported in the Semiannual Report for the period ended 3/31/92.

** OIG report A-90-29 also had questioned costs and is included in Appendix C.

APPENDIX E

DEBTS OWED TO USIA

In accordance with the Senate Committee on Appropriations report on the Supplemental Appropriations and Rescission Bill of 1980, the following chart shows preliminary, unaudited figures provided by USIA on appropriation-funded debts that were owed, overdue or resolved during the six-month period that ended September 30, 1992.

	Balance	Overdue	Resolved During Period
March 31, 1992	$469,595	$142,793	$99,072
September 30, 1992	$433,420 (2)	$155,223 (3)	$240,548 (1)

(1) This includes cash refunds, compromises, waivers, and write-offs.

(2) Includes new debts accrued during the six-month period of $204,373.

(3) Overdue accounts include three bankruptcy cases.
- a. $77,904
- b. $ 2,271
- c. $ 4,542

APPENDIX F

INDEX OF INSPECTOR GENERAL ACT REPORTING REQUIREMENTS CROSS-REFERENCED TO THIS SEMIANNUAL REPORT

The following information, as requested by OMB memorandum dated October 26, 1992, sets forth OIG's compliance with Section 5 of the Inspector General Act of 1978, as amended by P.L. 100-504, October 18, 1988:

Section	Activities	Location in Report
5 (a)(1)	Significant problems, abuses and deficiencies this period	"Digest" (Pages 1-5)
5 (a)(2)	Recommendations for corrective action regarding the above	"Operational Activities" (Pages 11-22)
5 (a)(3)	Significant recommendations in previous reports not completed	"Highlights of Follow-up Actions" (Pages 5-8)
5 (a)(4)	Matters referred to prosecutive authorities	Pages 21-22
5 (a)(5)	Reports made to Agency head under section 6(b)(2)	None
5 (a)(6)	Listing of audit reports with cost data	Appendix A (Pages 24-25)
5 (a)(7)	Summary of each significant report	"Operational Activities" (Pages 11-22)
5 (a)(8) (A),(B),(C) & (D)	Statistical tables regarding management decisions on questioned costs	Appendix C (Page 27)
5 (a)(9) (A),(B),(C) & (D)	Statistical tables regarding management decisions on recommendations that funds be put to better use	Appendix D (Page 28)
5 (a)(10)	Summary of audit reports for which no management decision has been made within six months of issuance	Page 23
5 (a)(11)	Significant revised management decisions	None
5 (a)(12)	Significant management decision with which the Inspector General is in disagreement	None

PRINCIPLES OF ETHICAL CONDUCT FOR GOVERNMENT OFFICERS AND EMPLOYEES

To insure that every citizen can have complete confidence in the integrity of the Federal Government, each Federal employee shall respect and adhere to the fundamental principles of ethical service as implemented in regulations promulgated under sections 201 and 301 of this order:

(a) Public service is a public trust, requiring employees to place loyalty to theConstitution, the laws, and ethical principles above private gain.

(b) Employees shall not hold financial interests that conflict with the conscientious performance of duty.

(c) Employees shall not engage in financial transactions using nonpublic Government information or allow the improper use of such information to further any private interest.

(d) An employee shall not, except pursuant to such reasonable exceptions as are provided by regulation, solicit or accept any gift of other item of monetary value from any person or entity seeking official action from, doing business with, or conducting activities regulated by the employee's agency, or whose interests may be substantially affected by the performance or nonperformance of the employee's duties.

(e) Employees shall put forth an honest effort in the performance of their duties.

(f) Employees shall make no unauthorized commitments or promises of any kind purporting to bind the Government.

(g) Employees shall not use public office for private gain.

(h) Employees shall act impartially and not give preferential treatment to any private organization or individual.

(i) Employees shall protect and conserve Federal property and shall not use it for other than authorized activities.

(j) Employees shall not engage in outside employment or activities, including seeking or negotiating for employment, that conflict with official Government duties and responsibilities.

(k) Employees shall disclose waste, fraud, abuse, and corruption to appropriate authorities.

(l) Employees shall satisfy in good faith their obligations as citizens, including all just financial obligations, especially those--such as Federal, State, or local taxes--that are imposed by law.

(m) Employees shall adhere to all laws and regulations that provide equal opportunity forall Americans regardless of race, color, religion, sex, national origin, age, or handicap.

(n) Employees shall endeavor to avoid any actions creating the appearance that they are violating the law or the ethical standards promulgated pursuant to this order.

Excerpt from Executive Order 12674 of April 12, 1989.

FOR ADDITIONAL INFORMATION OR COPIES

Office of Inspector General
United States Information Agency
400 6th Street, S.W., Room 1100
Washington, D.C. 20547

Telephone: (202)-401-7862
FAX (202)-401-7666

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Provide the following: Who, What, When, Where, Why and How.

END

1-26-94